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What's Ahead For Southland, Circle K What Road Runner Sale Says To Marketers Should Jobbers Buy Equipment Direct?

NPN



How Truckstops Of America
Plans To Boost Its Share
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Editor's Viewpoint

Attention continues to focus on still growing foreign investment in the United States. Most recently, the New York Times reported on this trend of "buying America on the cheap," although the strengthening U.S. dollar and resilience of the U.S. economy may for a time slow the momentum.

Though the danger of foreign investment is, I think, exaggerated, it is unsettling when your own industry becomes a target, [NPN—Dec. '88 p28]. According to the Energy Information Administration, the percentage of branded retail outlets supplied by foreign affiliated U.S. companies went from a little less than 20% in 1984 to more than 34% in 1987. The Texaco/Saudi and Unocal/Venezuela deals of the last year probably push the figure above 45%.

An interesting angle is how great an influence the sudden load of legislation and regulation dropped on marketers—tough new underground tank regs and insurance requirements, higher minimum wage, mandated health benefits, Stage II, etc., etc.—will have on how this foreign investment scenario in the U.S. oil industry plays out, particularly in the downstream end.

One possible indication is the recent sale of Truman Arnold's Road Runner chain of more than 100 outlets to Total Petroleum, a subsidiary of Total Petroleum North America Ltd., which is owned by the French company Total Compagnie Francaise des Petroles, SA. Arnold no doubt had a number of good reasons to sell his highly successful operation, one of which was probably a very high price. But it is also very likely that another major consideration was the cumulative impact of all the regs and legislation now facing marketers. He estimates that it would cost about \$60,000 per outlet just to meet UST regs.

Arnold was selling about 50-million gal./mo. of gasoline and diesel. In 1988, sales totaled \$217-million and the company's rate of return on its roughly \$45-million in assets was 20% or more. If an operator of this size, savvy and solid financial base decided it was time to bail out, what about jobbers in less enviable positions?

A lot of marketers are giving a lot of thought to whether they want to stay in this business. If and when they opt to sell, who buys? No doubt some purchasers will be financially sound jobbers dedicated to remaining in the industry and ready, in fact, to seize opportunity and invest in expanding. Domestic refiners will also be hunting for jobberships with good locations. But there are also foreign oil interests salivating to enter U.S. downstream operations, and others equally eager to extend their current holdings, who'll gladly pay a big price for a jobber's business as well as make the economic commitment to comply with new regs and legislation.

—Frank Victoria

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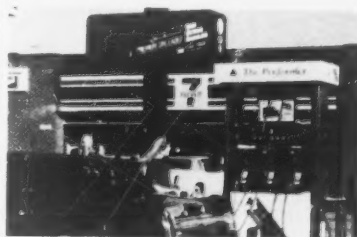
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While many truckstop chains are promoting general public patronage or trimming down to no-frills fuel stops, Truckstops of America is keeping its marketing sights fixed on its primary trucker customer base.

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Will Getty buy Southland's 50% interest in Citgo? Who will be the suitors for Circle K, now that the company is officially on the block? And why are two of the top three C-store chains in trouble?

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Could the announcement that superjobber Truman Arnold plans to sell most of his Road Runner Stores to Total Petroleum be the first sign of a new round restructuring in the industry?

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● TRENDS

High Octanes: Are They Heading Into Trouble?

Premium-grade gasolines, which make more money for oil companies than any other mainline product, may have a comeuppance of their own pretty soon.

When and if it happens, how far it goes and how long it lasts hinges precariously on retail pump prices and product imports, both of which have risen sharply in recent times. If these upward contrails continue, high octanes may suddenly find themselves the focal point of inquiries and challenging criticism from conservationists, environmentalists and government regulators.

There's no question that high octanes and oil company sales promotion techniques are jointly occasioning considerable waste of valuable energy resources.

Some round numbers will quickly give a perspective to the problem and the potentials:

- Assume, for starters, that 1989 gasoline consumption will be around 116-billion gal.
- Automotive experts and others (including major company executives) say 80% of the cars on the road can be powered satisfactorily with regular grade gasoline—leaded or unleaded; that is, 87-89 octanes.
- Eighty percent of 116-billion gal. is 92.8-billion gal. This is the market volume for the regular and mid-grade gasolines that could be expected to take care of eight out of 10 cars. Presumably, the balance (20% or 23.2-billion gal.) would be all the premium grade needed for the rest of the auto population, principally higher compression engines and special manufactures.
- Most oil companies do not disclose the ratios between and among leaded regular, unleaded regular, mid-grade and unleaded premium. But unleaded premium is generally known to hold a 30% to 35% share of the gasoline market on the Atlantic Seaboard from Maine to Florida and a bit less through the rest of the country.
- Thirty percent of 116-billion gal. is 34.8-billion gal. This is the current market volume for the 90-octane and above that generally qualifies as a premium-grade

gasoline. Subtracting 23.2-billion from 34.8-billion leaves a balance of 11.6-billion gal.

In other words, consumers are self-indulging themselves and their cars with 11.6-billion gal. of premium-grade gasoline, spending an extra \$2-billion/yr. on an image and a product they really don't need.

Refiners say it takes more crude to manufacture higher octanes. It used to be that they could do it with a couple of dollops of tetraethyllead. Now they have to use more expensive technology and equipment or other alternatives such as alcohol, MTBE and so forth.

Here's the eye-popper: 11.6-billion gal. of gasoline equals 750,000-b/d of liquid, be it crude oil or product. That's about 10.5% of the 7-million b/d of gasoline now consumed on the highways. It's an inviting target for people bent on cutting oil consumption.

You can't blame the oil companies for pushing their top-of-the-line product. That's standard procedure in all manufacturing businesses. They're in business to make money for themselves and their shareholders. Period and end quote.

You can't blame the oil companies for consumer buying patterns either. Individuals buy either what they want or what they can afford or what the siren songs lure them into. Freedom of choice. That's the American way.

However, it's a problem of significance that will worsen if rising pump prices impinge on the economy and if imports—already past the 50% mark—twinge the national conscience about U.S. dependence on foreign oil.

Car manufacturers may be the source of some small relief in the future. But the pressure is going to be on the oil industry. One General Motors executive told an American Petroleum Institute marketing meeting several months ago that better additive packages might cut octane numbers by as many as eight.

Refiners and marketers should mark well the warning of an Environmental Protection Agency executive last winter: "EPA has concentrated on the automobile in the past. You can expect more emphasis on fuels in the 1990s. New fuels are inevitable."

—J. Richard Shaner

● MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
APRIL				
U.S. City Avg.	\$1.098	\$1.047	\$1.065	\$1.221
Regions:				
Northeast	1.073	0.975	1.023	1.214
North Central	1.116	1.075	1.084	1.255
South	1.073	1.021	1.034	1.182
West	1.140	1.081	1.126	1.280

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (add 000 bbl.)

	6/2/89	6/3/88
Gasoline (all types)	219,818	224,048
Gasoline (unleaded) *	153,984	143,355
Jet Kerosine	39,123	38,336
Distillates	98,850	102,531
Residual	39,843	42,548

* Included in gasoline total.

Source: American Petroleum Institute.

New Energy Forecast: Higher Crude, RVP Costs Boosting Gasoline Prices

Although their short-term energy forecasts have been generally on the conservative side, federal forecasters now agree that 99¢ gasoline is pretty well a thing of the past.

They see \$1.09/gal. in July, August and September and \$1.06/gal. for the October, November and December period. This is the composite for all grades and services and is weighted by actual consumption variations.

Not since 1985 has this average price hit and stayed above the buck-a-gallon level for more than a month or two. It still has a long way to go to reach the \$1.28-\$1.30/gal. levels which were par for the course in 1981 and 1982, however.

At that, this summer's gasoline prices—at least on the federal charts—are 9¢/gal. above those of last summer. Actual street prices were above \$1.10/gal. in May in many places and they'll probably hit \$1.15 to \$1.18/gal. in July and August, some industry observers say.

Demand will be up this summer and next, but not significantly, the current Short-Term Energy Forecast says.

Total demand for all products also will be up but the projected rate of increase is so small it may not be noticeable.

Of interest is the fact that the ratio pace between leaded and unleaded gasoline sales appears to be slowing down a bit. It's expected to average 85% for 1989 and 87% for 1990, compared with 82% in 1988 and 76% in 1987. In other words, up 6% in 1988, 5% in 1989 and only 2% in 1990. This is because the older car population is getting down to a core point, where future declines will be much slower.

The new federal forecast, dated April but issued in mid-May, is based on \$17/bbl. crude oil in 1989 and 1990. However, imported crude oil has edged up to the \$20/bbl. level since the first of the year and has been nervously reacting to negative production reports at home and abroad.

Whether the price goes higher depends not only on a June meeting of the Organization of Petroleum Exporting Countries but also on how faithful the members are to their production quotas.

A recent report in The Wall Street Journal stated that OPEC members were pumping 1.5-million b/d over their 18-million-b/d quotas in May. They are expected to raise their quotas at this month's meeting but long-term this can only lead to global

surpluses again. If that happens, crude prices will probably sag to the \$17-\$18/bbl. level.

There has been a small furor over the rise in gasoline prices in recent months. Suppliers blamed it on rising crude oil costs and higher wholesale costs which were not passed along until early spring—about the time of the Exxon spill in Alaska which initially "and erroneously" got the blame.

There was—and still is—considerable confusion over how much the federal government's new Reid Vapor Pressure level of 10-psi for the summer months is going to cost consumers. Some New England states implemented an even more drastic

RVP of 9, creating both supply and cost-calculation problems on the East Coast.

The spiraling gasoline prices prompted a number of states and also some voices on Capitol Hill in Washington to call for investigations to determine whether the new pu... tails were justified.

The higher gasoline prices have increased the cash flow at most service stations but not the profits. Margins, industry sources said, haven't changed that much in recent months so no one is really hurting.

Here's what federal forecasters foresee for gasoline and distillates this year and next:

(Continued on next page)

Looking Ahead: Gasoline Prices Are Improving

	THIS YEAR					% Chng. '89/'88
	1Q	2Q	3Q	4Q	Full Year	
PRICES (¢/gal.) (a)						
Motor Gasoline (b)	\$0.96	\$1.05	\$1.09	\$1.06	\$1.04	8.3%
No. 2 Diesel Fuel	.92	.92	.92	.95	.93	2.2
No. 2 Heating Oil						
Wholesale	.52	.52	.52	.57	.53	10.4
Retail	.85	.84	.81	.87	.84	3.7
Residual (c)	.38	.38	.38	.40	.39	14.7
DEMAND (million b/d)						
Motor Gasoline	7.09	7.57	7.59	7.39	7.41	1.4
Leaded	.98	1.18	1.14	1.06	1.09	(18.0)
Unleaded	6.11	6.39	6.46	6.33	6.32	5.5
% Unleaded	86%	84%	85%	86%	85%	2.0
Distillates	3.39	3.05	2.87	3.27	3.14	1.3
Residual	1.47	1.12	1.12	1.28	1.25	(6.0)
Total U.S. (d)	17.54	16.95	17.16	17.61	17.32	0.9
NEXT YEAR						
PRICES (¢/gal.) (a)						
Motor Gasoline (b)	1.00	1.02	1.08	1.07	1.04	'90/'89
No. 2 Diesel Fuel	.94	.92	.92	.95	.93	0.0
No. 2 Heating Oil						
Wholesale	.55	.51	.52	.57	.54	1.8
Retail	.89	.85	.83	.88	.87	3.6
Residual (c)	.41	.38	.39	.41	.40	2.6
DEMAND (million b/d)						
Motor Gasoline	7.12	7.65	7.70	7.51	7.50	1.2
Leaded	.98	1.01	.98	.91	.97	(11.0)
Unleaded	6.14	6.64	6.72	6.60	6.53	3.3
% Unleaded	86%	87%	86%	88%	87%	2.0
Distillates	3.56	3.07	2.90	3.31	3.21	2.2
Residual	1.36	1.07	1.07	1.25	1.18	(5.9)
Total U.S. (d)	17.63	17.05	17.30	17.82	17.45	0.8

(a) Includes federal and state taxes on all products except heating oils which are untaxed; (b) Average for all grades and services; (c) Average for all grades and sulfurs; (d) Includes all other oils.

Source: Energy Information Administration, Short-Term Energy Forecast, dated April and published May 1989.

(Forecast ... continued from last page)

Gasoline: "Motor gasoline is expected to continue its six-year growth, at a pace similar to the 1.4% rate for 1988, through 1990. Increases in motor vehicle travel are expected to slacken as the economy slows down from the rapid growth exhibited in 1988.

"However, average vehicle efficiency (mpg), which has apparently been growing by between 1.5% to 2.0% over the last several years, is not expected to advance as quickly in 1989 and 1990, averaging under 1.5% during that period.

"Continued increases in demand may be expected to exacerbate some gasoline supply problems now facing refiners and to keep gasoline prices relatively high. Nevertheless, real (inflation-adjusted) fuel costs are expected to decline between 1989 and 1990."

Distillates: "After increasing by 4% in 1988, annual growth in distillate demand is projected to be less during the forecast period.

"With expected normal weather, slower gains in manufacturing, and slightly higher fuel prices, growth in distillate demand averages 1.3% and 2.2% in 1989 and 1990, respectively.

"Transportation demand for diesel fuel showed annual growth of over 3.0% during 1988. Slower industrial growth and higher diesel prices should cause growth rates to slow accordingly in 1989 and 1990."

New Option Offered For UST Coverage

Marketers have a new alternative for obtaining the Environmental Protection Agency's mandatory \$1-million worth of tank liability insurance: Environmental Risk Services, Inc., a consultant that will match a marketer's needs with the services of several insurers and reinsurers.

Based in Washington, D.C., the group counts Lloyd's of London among its list of affiliate insurance companies.

Not an insurance company themselves, Environmental Risk Services may call on one or a combination of insurers to meet a marketer's needs, says Thomas W. Egan, one of the two founders of the group.

Deductibles range from \$5,000 to \$1/2-million depending on how many tanks a client has, Egan says.

Likewise, premiums can range between \$1,000 and \$2,500 depending on the number of tanks, he says.

The group also has a set of criteria by which to judge whether or not a marketer is a good risk. Among these factors are tightness tests and monitoring systems, remoteness of system from ground water or a populated area, cathodic protection and inventory control.

Shell, Health Officials Clash On Gasoline Cleanup Rules

Oil companies, including jobbers and dealers, are a long way from agreeing with environmental agencies on how or whether to clean up gasoline contamination resulting from leaking underground storage tanks, but public agencies are often rigid about cleanup procedures and some are leaning hard on companies that don't see it their way.

Oil companies question under some circumstances whether any real harm is done if the gasoline is left untreated in the soil.

They also question whether contaminated soil has to be hauled off to special toxic dumps, at great expense, requiring special permits and other arrangements, at great expense.

In a recent Orange County, Calif., case, Shell finally bowed to pressure—a lot of pressure—and as part of the settlement agreed to do some costly research to clarify what the real danger is and what techniques can provide safe cleanup.

The Orange County district attorney had filed suit against Shell in state Superior Court on behalf of county health officials, alleging improper handling of soil during underground storage tank removal at 14 stations in Orange County and seeking \$250,000 penalties.

It wasn't a question of Shell not removing leaking tanks. Shell removed the tanks at 14 locations and installed new fiberglass tanks, but county health officials said the company did not comply with county orders to check for underground water contamination or submit cleanup plans.

Shell disagreed with the county on the necessity to dispose of soil surrounding the old tanks, a company statement said.

In a consent decree, Shell agreed, without admitting liability, to pay nominal administrative costs of \$40,000 to the county, and, more importantly, to pay for two research projects to be shared with the county.

Shell said it had completed remedial work at five of the 14 sites, leaving nine sites involved in the consent decree.

At an estimated cost of \$1.1-million, the two research projects will attempt to assess the risk of gasoline vapor migration in the soil and the possible public health risks resulting from cleanup work itself, a Shell statement said. Shell also agreed to perform a two-site research project on soil vapor extraction.

The study could shed light on what should and should not be done when gasoline is found in the ground beneath a service station.

IPAA Looks To White House To Mitigate 'Energy Dilemma'

The International Petroleum Assn. of America (IPAA) Economic Policy Committee used harrowing terms to size up the nation's energy condition and leaned on the Bush administration for corrective action to an "urgent need."

At its mid-year meeting, IPAA said the country is hampered by a combination of upstream financial shortfalls, overreliance on foreign oil due to unexpected domestic demand and supply interruptions.

Statements culled from the IPAA report include: "Petroleum production in the Lower 48 states has fallen to its lowest level since 1950 and is continuing to decline at an alarming rate....economic activity has cause[d] petroleum consumption to exceed most expectations. Consequently, imports

are the only solution...Severe capital shortages persist in the upstream sector."

IPAA said the solution is not a limited, quick fix energy program but an enduring, complete, forward-focusing strategy. "There is an urgent need for the new administration to develop a long-term, comprehensive national energy policy that will guide the country into the 21st Century."

At the same mid-year meeting, the IPAA Tax Committee said Bush's proposals for tax incentives designed to shackle the drop in exploration and production were "too narrow in scope."

The 60-year-old IPAA represents about 10,000 independent oil and natural gas explorers and producers in the 33 states where such activity occurs.

Pennsylvania Jobber Joins Wright Express

Altoona, Pa. jobber Sheetz has become the most recent independent marketer to enlist the electronic credit administrative services of Wright Express Corp.

Sheetz joins other independent clients of

Wright such as Getty, Fina, Crown and Total/Vickers in an agreement that will bring the Portland, Maine-based Wright Express 170 additional electronic sites, now at more than 3,000.

New IPAA Outlook: Demand Strong, But Imports Could Exceed U.S. Crude Output

The new industry outlook for petroleum supply and demand, released in May by the Independent Petroleum Assn. of America, sounds an ominous note with respect to U.S. energy security.

According to IPAA's latest forecast, annual petroleum imports are expected to exceed domestic crude oil production for the

first time since 1977.

U.S. crude output is projected to decline for the fourth consecutive year, a drop of 4% to an average of only 7-million b/d, IPAA says.

With demand increasing to the highest level (17.5-million b/d) since 1979, however, total U.S. supply will rise 13.5% to an

average of 8.1-million b/d. Domestic petroleum imports are forecast to reach 44% of total U.S. supply this year, up 4% from 1987.

"The United States is rapidly approaching over dependence on imported oil," IPAA concludes, noting the need for legislation to spur domestic production.

(Add 000 b/d)

DEMAND	1st Qtr	2nd Qtr	1989 Forecast 3rd Qtr	4th Qtr	1989 Average	1988-89 % Cng.
Domestic Products			(Add 000 b/d)			
Motor Gasoline	7,044	7,593	7,567	7,391	7,400	1.2%
Aviation Fuels	1,552	1,474	1,506	1,542	1,518	3.1
Middle Distillates	3,566	2,990	2,920	3,450	3,230	0.9
Residual Fuel Oil	1,516	1,228	1,279	1,476	1,374	3.4
Other Products	3,855	3,769	4,083	4,054	3,942	2.3
Domestic Demand	17,533	17,054	17,355	17,913	17,464	1.7
Total Exports	843	787	764	796	797	(2.7)
TOTAL DEMAND	18,376	17,841	18,119	18,709	18,261	1.5

SUPPLY

Domestic Production

Crude Oil	7,856	7,731	7,823	7,792	7,800	(4.0)
Natural Gas Liquids	1,624	1,592	1,571	1,601	1,597	(1.4)
Total Production	9,480	9,323	9,394	9,393	9,397	(3.6)
Imports						
Motor Gasoline	436	526	550	475	497	12.7
Aviation Fuels	123	101	100	95	105	19.3
Middle Distillates	377	238	267	360	310	4.7
Residual Fuel Oil	726	500	525	689	510	3.2
Other Products	728	734	792	954	802	13.8
Total Products	2,390	2,099	2,234	2,573	2,324	9.6
Crude Oil Imports	5,235	5,661	6,048	5,987	5,736	15.1
Total Imports	7,625	7,760	8,282	8,560	8,060	13.5
Other Supply	898	939	898	804	885	(16.8)
TOTAL SUPPLY	18,003	18,022	18,574	18,757	18,342	2.4
Refinery Inputs	13,461	13,909	14,322	14,258	13,991	5.2

CLOSING STOCKS (millions of bbl.)

Motor Gasoline	232.3	215.0	215.4	225.5	225.5	(1.2)
Aviation Fuels	45.9	46.9	46.3	47.8	47.8	4.4
Middle Distillates	103.0	110.8	136.8	139.9	139.9	7.0
Residual Fuel Oil	42.2	41.5	43.7	45.7	45.7	2.7
Other Products	255.4	282.8	285.4	266.3	266.3	2.6
Total Products	678.8	697.0	727.6	725.2	725.2	2.3
Crude Oil Stocks	327.7	326.0	337.3	344.1	344.1	3.9
TOTAL STOCKS	1,006.5	1,023.0	1,064.9	1,069.3	1,069.3	2.8

Source: IPAA Supply and Demand Committee, May, 1989.